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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 4709

E.O. 11652: GDS

TAGS: EIND, MILI, NATO

SUBJECT: ECONADS: DEFENSE INDUSTRY AND TECHNOLOGY OF THE ALLIANCE

REF: USNATO 4276

1. NATO ECONOMIC DIRECTOR HAS DISTRIBUTED DOCUMENT (ED/EC/74-61) QUOTED PARA 6 BELOW OUTLINING HIS SUGGESTIONS OF WORK APPROPRIATE FOR THE ECONOMIC COMMITTEE IN COOPERATION WITH THE NIAG IN STUDYING THE PROBLEM OF ALLIANCE DEFENSE INDUSTRY AND TECHNOLOGY COOPERATION. THIS DOCUMENT IS ON AGENDA OF ECONOMIC COMMITTEE MEETING SCHEDULED FOR SEPTEMBER 5.

2. JUDGING FROM THE REACTION OF FRENCH, FRG, AND UK ECONADS WHEN CHAIRMAN RAISED SUBJECT AT AUGUST 1 ECONOMIC COMMITTEE MEETING (REFTEL), IT WILL BE DIFFICULT TO REACH A CONSENSUS FOR THE ECONOMIC COMMITTEE TO UNDERTAKE ANY STUDIES UNTIL THE ADIT AD HOC GROUP HAS PROGRESSED FURTHER WITH REPLIES TO THE QUESTIONNAIRE ON R AND D IN THE FIELD OF TACTICAL MISSILES. IN THIS REGARD, STATEMENT IN PARA 14 OF ED/EC/74/61 IS OVERLY OPTIMISTIC ABOUT THE TIME FRAME IN WHICH ADIT GROUP'S ANALYSIS WILL BE COMPLETED. IT WILL CERTAINLY NOT BE FINISHED WITHIN THE NEXT FEW WEEKS OR PERHAPS MONTHS. THIS BEING SO, MISSION BELIEVES THE ECONOMIC COMMITTEE SHOULD PROCEED WITH ITS CONFIDENTIAL

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WORK ON A STEP-BY-STEP BASIS, BEGINNING AS OUTLINED IN PARA 5 OF THE DOCUMENT WITH A STUDY OF RESOURCE SAVINGS AS A RESULT OF STANDARDIZATION, INTEROPERABILITY OR COOPERATION WITHIN THE ALLIANCE IN THE PRODUCTION OF PARTICULAR MILITARY ITEMS OR WEAPONS

SYSTEMS. THE AID SHOULD BE TO DESCRIBE THE EXTENT OF DUPLICATION, ITS SERIOUSNESS, AND IN WHAT AREAS IT EXISTS (E.G., COMPONENTS, ASSEMBLY, ETC.). THE INEFFICIENCY COULD THEN BE CALCULATED BY QUANTIFYING THE WASTE COMPARED TO A MORE RATIONAL ALLOCATION OF RESOURCES.

3. AT A SECOND AND LATER STAGE, THE ECONOMIC COMMITTEE COULD EXAMINE THE EFFECTS ON EMPLOYMENT, BALANCE OF PAYMENTS AND GNP GROWTH RESULTING FROM COOPERATIVE AS OPPOSED TO DUPLICATIVE DESIGN AND PRODUCTION (PARA 8 OF EC/EC/74/61). AT A MUCH LATER STAGE, AND AFTER COUNCIL APPROVAL, PRODUCTION ALLOCATION COULD BE EXAMINED AS REFERRED TO IN PARAS 10, 11 AND 12 OF THE DOCUMENT.

4. MISSION OFFICERS HAVE DISCUSSED ROLE OF ECONOMIC COMMITTEE WITH ASYG TUCKER(DEFENSE SUPPORT). HE IS CONVINCED THAT LITTLE PROGRESS HAS BEEN MADE TOWARD STANDARDIZATION, INTEROPERABILITY, AND REDUCTION OF DUPLICATION, BECAUSE NATO HAS NOT BEEN ADDRESSING THE FACTORS WHICH DETERMINE THE OUTCOME IN MILITARY PROCUREMENT WHICH ARE POLITICAL AND ECONOMIC. THEREFORE, HE STRONGLY SUPPORTS ACTION BY THE ECONOMIC COMMITTEE TO TEST AND QUANTIFY STATEMENTS HE HAS MADE ON CONVICTION THAT AGGREGATE ALLIANCE DEFENSE INDUSTRY HAS OVERCAPACITY AND IS UNDERCAPITALIZED, FRAGMENTED, DUPLICATIVE AND INEFFICIENT.

5. UNLESS INSTRUCTED OTHERWISE, MISSION INTENDS AT ECONOMIC COMMITTEE MEETING SEPTEMBER 5 TO SUPPORT INITIATION OF FRIST STAGE STUDY AS OUTLINED PARA 2 ABOVE. WOULD APPRECIATE BEFORE SEPTEMBER 5 ANY ADDITIONAL COMMENTS ON ED/EC74/61, TEXT OF WHICH FOLLOWS.

6. QUOTE.

THE ALLIANCE DEFENCE INDUSTRY AND TECHNOLOGY
DRAFT REPORT TO THE COUNCIL

1. AT ITS MEETING ON 5TH JUNE, 1974(1), THE COUNCIL INFITED THE ECONOMIC COMMITTEE TO STUDY THE PAPERS ON THE ALLIANCE DEFENCE INDUSTRY AND TECHNOLOGY(2) AND TO ADVISE THE COUNCIL AS TO THE CONFIDENTIAL

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CONTRIBUTION IT COULD MAKE IN THIS AREA.

2. THE COMMITTEE EXAMINED THIS QUESTION IN THE LIGHT OF THE DISCUSSIONS DURING THE DEFENCE PLANNING COMMITTEE MEETING AT MINISTERIAL LEVEL ON 14TH JUNE, 1974(3) AND OF THE DECISIONS TAKEN, IN PARTICULAR THAT MINISTERS:

(A) WELCOMED THE INITIATIVE TAKEN IN DRAWING THEIR ATTENTION TO THIS POINT;

(B) TOOK NOTE OF THE STATEMENTS BY THE UNITED KINGDOM AND ITALIAN REPRESENTATIVES;

(C) ENDORSED THE IMPORTANCE OF A CO-ORDINATED APPROACH USING THE
CNAD, THE ECONOMIC COMMITTEE AND ANY OTHER
APPROPRIATE BODY;

(D) AGREED THAT THE NATIONS SHOULD PROVIDE INFORMATION
AND EXPERTISE;

(E) REQUESTED FURTHER REGULAR PROGRESS REPORTS.

3. DOCUMENT PO/74/73(REVISED), DATED 12TH JUNE, 1974,
WHICH WAS SUBMITTED TO THE DEFENCE MINISTERS, CONSTITUTES THE
BASIC REFERENCE DOCUMENT FOR THE BODIES INVITED TO EXAMINE THE
FUTURE OF THE ALLIANCE DEFENCE INDUSTRY AND TECHNOLOGY.
ANNEX II TO THAT DOCUMENT LAYS DOWN CERTAIN GUIDELINES FOR THE
RESEARCH WHICH MIGHT BE UNDERTAKEN BY THE ECONOMIC COMMITTEE
IN COLLABORATION WITH THE NIAG (4).

4. ACTING IN THE SPRIT OF PO/74/73(REVISED), THE
ECONOMIC DIRECTORATE SUBMITTED TO THE COMMITTEE, FOR INFORMATION,
A NOTE WHICH ATTEMPTED AS FAR AS POSSIBLE TO DEFINE SOME OF THE
DIFFICULTIES AND ECONOMIC PROBLEMS IN ONE PARTICULAR SECTOR OF
THE ALLIANCE DEFENCE INDUSTRY, NAMELY, THE AERONAUTICAL INDUSTRY(5).

5. IN THE PRESENT ECONOMIC CONTEXT, WHICH IS CHARACTERIZED
BY STRONG INFLATIONARY PRESSURES AND BY THE PROBABILITY OF A
REDUCTION IN THE RESOURCES AVAILABLE FOR DEFENCE, ONE OF THE
ECONOMIC COMMITTEE'S TASKS MIGHT BE TO EXPLAIN WHAT SAVINGS COULD
BE MADE IN RESOURCES AS A RESULT OF STANDARDIZATION, INTER-
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OPERABILITY OR CO-OPERATION WITHIN THE ALLIANCE IN THE PRODUCTION
OF GIVEN WEAPONS SYSTEMS, SINCE THE DEVELOPMENT OF EXPENSIVE
WEAPONS SYSTEMS HAS S SIGNIFICANT EFFECT ON THE DEFENCE EFFORTS
OF THE ALLIANCE COUNTRIES.

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6. FURTHERMORE, IT HAS BECOME CLEAR OVER THE YEARS THAT THE DEVELOPMENT AND PRODUCTION OF CERTAIN ARMAMENTS HAS A TWOFOLD PURPOSE. THE FIRST IS NATURALLY TO PROVIDE THE NATIONAL DEFENCE AUTHORITIES WITH SUITABLE MEANS OF ENSURING SECURITY. IT IS ALSO EVIDENT THAT THESE ACTIVITIES HAVE SUCH PURELY ECONOMIC OBJECTIVES AS THE PROCUREMENT OF FOREIGN CURRENCY BY MEANS OF EXPORTS OR THE CREATION OF EMPLOYMENT, EITHER ON A REGIONAL BASIS OR IN THE ARMAMENTS INDUSTRY AS A WHOLE.

7. IN SOME CASES, THE PRODUCTION OF MILITARY EQUIPMENT PROVIDES AN ESSENTIAL COMPLEMENT TO THE CIVILIAN ACTIVITIES OF CERTAIN INDUSTRIES. IN OTHER CASES, THE MAIN PURPOSE OF EMBARKING ON MILITARY PRODUCTION PROGRAMMES IS TO MAINTAIN THE ACTIVITY OF INDUSTRIAL SECTORS WHICH ARE CONSIDERED VITAL FOR NATIONAL DEFENCE.

8. THIS BEING SO, THE TASK OF THE ECONOMIC COMMITTEE, ASSISTED BY THE ECONOMIC DIRECTORATE, SHOULD BE A DEMONSTRATE THE IMPORTANCE OF THE MANUFACTURE OF CERTAIN MILITARY EQUIPMENT, BEARING IN MIND POTENTIAL MARKETS AS REGARDS:
EXPORTS AND THE BALANCE OF PAYMENTS;
REGIONAL AND NATIONAL EMPLOYMENT LEVELS;
THE NATIONAL PRODUCT AND ITS GROWTH.
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IT WOULD ALSO BE USEFUL TO DETERMINE AS FAR AS POSSIBLE WHAT CONTRIBUTION THE TECHNOLOGY DEVELOPED IN CONNECTION WITH MILITARY EQUIPMENT COULD MAKE IN CERTAIN ADVANCED CIVILIAN SECTORS (E.G. LINKS BETWEEN ELECTRONICS AND AERONAUTICS).

9. SUCH AN ANALYSIS WOULD NORMALLY SUPPLEMENT ANY TECHNICAL CONSIDERATIONS WHICH MIGHT BE PUT FORWARD BY THE NATO SPECIALIST COMMITTEES.

10. AT A LATER STAGE, PROVIDED THAT THE APPROPRIATE BODIES, ESPECIALLY AT COUNCIL LEVEL, HAD BEEN ABLE TO REACH AGREEMENT ON THE CHOICE OF ONE OR MORE PRODUCTS, THE ECONOMIC COMMITTEE MIGHT ALSO ENDEAVOUR TO ESTABLISH SUITABLE FORMULAS SO AS TO ENSURE THAT PRODUCTION AND FINANCIAL COMMITMENTS AND PROFITS WERE FAIRLY ALLOCATED BETWEEN THE DIFFERENT NATIONAL INDUSTRIES, BOTH AS REGARDS THE CREATION OF JOBS AND THE BALANCE OF PAYMENTS.

11. THIS ANALYSIS WOULD OBVIOUSLY HAVE TO BE INSPIRED BY THE DESIRE TO ENSURE THE PARTICIPATION OF THE SMALLEST NATO COUNTRIES, ESPECIALLY THOSE WHOSE ECONOMIES HAVE NOT REACHED SUCH AN ADVANCED STAGE OF DEVELOPMENT AS THE MORE HIGHLY INDUSTRIALIZED ONES.

12. TOGETHER WITH THESE SPECIALIZED STUDIES, THE ECONOMIC COMMITTEE MIGHT APPLY ITSELF TO A BROAD ANALYSIS OF THE STRUCTURE OF NATIONAL ARMAMENTS INDUSTRIES, BOTH AS REGARDS THEIR COMPLEMENTARY ASPECTS AND THEIR SIMILARITIES, IN ORDER TO MAKE IT EASIER TO FIND APPROPRIATE SHARING FORMULAS FOR APPLICATION IN EACH SPECIFIC CASE.

13. ON 14TH JUNE, 1974(6), THE DEFENCE MINISTERS DESIGNATED THE SPECIFIC SECTORS TO WHICH PARTICULAR ATTENTION MUST BE GIVEN. THESE INCLUDED AIRBORNE EARLY WARNING EQUIPMENT, AIRCRAFT DETECTION AND TRACKING SYSTEMS, ELECTRONIC WARFARE FACILITIES, THE REPLACEMENT OF THE F-104G AND OTHER TYPES OF TACTICAL COMBAT AIRCRAFT NOW IN SERVICE, THE STANDARDIZATION OF RIFLE AMMUNITION AND THE ADOPTION OF A NEW RIFLE IN THE 1980S.

14. THE ECONOMIC COMMITTEE HAS TAKEN NOTE OF THE TASK ASSIGNED BY THE CNAD TO THE WORKING GROUP ON THE ALLIANCE DEFENCE CONFIDENTIAL

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INDUSTRY AND TECHNOLOGY (ADIT). THIS GROUP IS AT PRESENT COLLECTING CERTAIN INFORMATION, WHICH IS EXPECTED TO BE AVAILABLE WITHIN THE NEXT FEW WEEKS, ON THE EXTENT, NATURE AND AIMS OF NATIONAL RESEARCH AND DEVELOPMENT AS REGARDS TACTICAL MISSILES, AND IS ANALYSING THE RESULTS. ONLY WHEN THIS PRELIMINARY ANALYSIS HAS BEEN COMPLETED WILL IT BE POSSIBLE TO SEEK INFORMATION CONCERNING NATIONAL PRODUCTION PROGRAMMES. IT IS AT THIS LATER STAGE THAT THE COMMITTEE COULD USEFULLY INTERVENE TO EXAMINE THE ECONOMIC EFFECTS, AT NATIONAL LEVEL, OF THE VARIOUS PRODUCTION PROGRAMMES.

15. UNTIL THE RESULTS ARE AVAILABLE OF THE CNAD MEETING SCHEDULED FOR THE END OF OCTOBER 1974, AT WHICH THE CONFERENCE MIGHT FINALIZE A SERIES OF SPECIFIC QUESTIONS FOR THE NAIG AND THE ECONOMIC COMMITTEE, THE LATER PROPOSES TO CONTINUE TO CONSIDER THE MATTER ON THE BASIS OF THE INFORMATION ALREADY IN ITS POSSESSION AND ANY FURTHER DETAILS WHICH IT MAY BE ABLE TO OBTAIN FROM THE VARIOUS NATIONAL AUTHORITIES, IN ACCORDANCE WITH THE MINISTERS' DECISION REFERRED TO AT PARAGRAPH 2(D) ABOVE.

16. THE INFORMATION THUS OBTAINED SHOULD ENABLE PRELIMINARY EXCHANGES OF VIEWS TO TAKE PLACE AND CONSTITUTE THE BASIS FOR ACTION BY THE COMMITTEE, UNDER THE BEST POSSIBLE CONDITIONS, IN CO-ORDINATION WITH NIAG, CNAD AND THE OTHER APPROPRIATE BODIES WHICH THE COUNCIL HAS ALSO CHARGED WITH THE STUDY OF THE PROBLEM OF THE ALLIANCE DEFENCE INDUSTRY AND TECHNOLOGY.

- (1) SEE C-R(74)25, PARAGRAPH 55, POINT(3)
- (2) PO/74/16, PO/74/75, PO/74/73(REVISED), DS/ASG(74)76
- (3) DPC-VR(74)15, PART II, DATED 14TH JUNE, 1974
- (4) PARAGRAPHS 17 AND 19 OF PO/74/73(REVISED)

(5) EC/EC/74/55 AND CORRIGENDUM

(6) SEE STATEMENT BY MR. ANDREOTTI, DPC-VR/74/15 AND ALSO

DOCUMENT AC/127-WP/354 AND CORRIGENDA DATED 17TH MAY, 1973.

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